

SPENCER MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
DECEMBER 31, 2009 AND 2008

TABLE OF CONTENTS

	<u>Page</u>
Officials.....	1
 Municipal Electric Utility:	
Independent Auditors' Report.....	2
Management's Discussion and Analysis	3 - 5
 Financial Statements:	
Statements of Net Assets	6 - 7
Statements of Revenues, Expenses and Changes in Fund Net Assets	8
Statements of Cash Flows.....	9 - 10
Notes to Financial Statements.....	11 - 25
 Required Supplemental Information:	
Budgetary Reporting.....	26 - 28
 Independent Auditors' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
	29 - 30
Schedule of Findings.....	31 - 32
 Municipal Water Utility:	
Independent Auditors' Report.....	33
Management's Discussion and Analysis	34 - 36
 Financial Statements:	
Statements of Net Assets	37 - 38
Statements of Revenues, Expenses and Changes in Fund Net Assets	39
Statements of Cash Flows.....	40 - 41
Notes to Financial Statements.....	42 - 53
 Required Supplemental Information:	
Budgetary Reporting.....	54 - 56

TABLE OF CONTENTS - Continued

	<u>Page</u>
Municipal Water Utility (Continued):	
Independent Auditors' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	57 - 58
Schedule of Findings.....	59 - 60
Municipal Communications Utility:	
Independent Auditors' Report.....	61
Management's Discussion and Analysis	62 - 64
Financial Statements:	
Statements of Net Assets	65
Statements of Revenues, Expenses and Changes in Fund Net Assets	66
Statements of Cash Flows.....	67 - 68
Notes to Financial Statements.....	69 - 78
Required Supplemental Information:	
Budgetary Reporting.....	79 - 81
Independent Auditors' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	82 - 83
Schedule of Findings.....	84 - 85

SPENCER MUNICIPAL UTILITIES

OFFICIALS

DECEMBER 31, 2009

<u>Board of Trustees</u>		<u>Term Expires</u>
Bruce Tamisiea	Chairman	6-30-2010
Dave Hultgren	Vice-Chairman	6-30-2011
Gary Tolzmann	Secretary	6-30-2012
Murray Hart	Treasurer	6-30-2013
Tom Howe	Trustee	6-30-2014
<u>Management</u>		
Steven Pick	General Manager	
Trisha Bruning	Finance Supervisor	

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SPENCER MUNICIPAL UTILITIES

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA**

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, IA 51301

We have audited the accompanying statements of net assets of the Municipal Electric Utility of the City of Spencer, Iowa (the Utility) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2010 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for 2009 on pages 3 through 5 and 26 through 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Electric Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2009 and 2008.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2009 Financial Highlights

The Utility delivered approximately 147,100,000 kilowatt hours (kWh) of electricity to its retail customers in 2009 compared to approximately 159,900,000 kWh in 2008.

The Utility's net assets decreased by \$1,058,442 to \$47,516,429 as a result of operations and loss on capital investment due to the cancellation of construction of the Sutherland Generating Station Unit 4 during the year ended December 31, 2009.

Overview of the Financial Statements

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statement of revenues, expenses and changes in net assets report all revenues and expenses incurred during the fiscal year.

The Statement of Cash Flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheet

	<u>2009</u>	<u>2008</u>
Capital assets, net of depr.	\$38,422,154	\$39,476,277
Noncurrent assets	14,682,657	13,811,474
Current assets	4,190,153	7,782,246
Deferred costs	108,005	121,789
Total assets	<u>\$57,402,969</u>	<u>\$61,191,786</u>
Bonds payable	\$7,980,000	\$10,225,000
Current liabilities	1,906,540	2,391,915
Total liabilities	<u>9,886,540</u>	<u>12,616,915</u>
Investments in capital assets, net of related debt	\$29,847,154	\$28,161,277
Restricted	2,389,843	2,438,619
Unrestricted	15,279,432	17,974,975
Total net assets	<u>47,516,429</u>	<u>48,574,871</u>
Total liabilities and net assets	<u>\$57,402,969</u>	<u>\$61,191,786</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Sales of electricity	\$8,958,226	\$9,788,329
Other	679,087	551,947
Total operating revenue	<u>9,637,313</u>	<u>10,340,276</u>
Power supply costs	6,411,468	5,764,131
Distribution system maintenance	1,590,631	1,354,272
Depreciation & amortization	2,377,058	2,416,555
Customer service & administration	1,198,444	997,941
Total operating expenses	<u>11,577,601</u>	<u>10,532,899</u>
Operating income (loss)	(1,940,288)	(192,623)
Interest income	489,054	626,526
Interest expense	(444,927)	(536,292)
Other income	837,719	617,868
Total non-operating revenues	<u>881,846</u>	<u>708,102</u>
Change in net assets	(1,058,442)	515,479
Net assets, beginning of year	<u>48,574,871</u>	<u>48,059,392</u>
Net assets, end of year	<u>\$47,516,429</u>	<u>\$48,574,871</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets decreased by approximately \$3,788,817.

The Utility's gross revenues decreased by approximately \$703,000 or 6.80%.

Total operating loss generated in 2009 was \$1,940,288 compared to an operating loss of \$192,623 in 2008.

Utility non-operating income (expense) resulted in an additional \$881,846 of income due to additional leases of utility facilities.

Total net income (loss) decreased from \$515,479 in 2008 to (\$1,058,442) in 2009.

Capital Assets and Debt Administration

Net capital assets decreased by \$1,054,123 due to depreciation exceeding assets placed in service.

Spencer Municipal Utilities had invested approximately \$599,000 for the development and construction of Sutherland Generating Station Unit 4. During March 2009 Interstate Power and Light, an Alliant Energy Company, cancelled plans to construct the plant. A cash settlement was negotiated and Spencer Municipal Utilities received \$225,365 and recognized a loss of \$373,177.

Economic Factors

Retail sales dropped by 12,000,000 Kwh in 2009, which represents an approximate 8% decrease from 2008.

The utility adopted an Energy Cost Adjustment (ECA) for all consumption beginning September 7, 2005. The ECA is calculated monthly and is designed to recoup the additional costs of power supply from the consumer.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Supervisor, 712 Grand Ave, PO Box 222, Spencer, Iowa 51301.

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**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
ASSETS		
Capital Assets:		
Plant in Service	\$ 71,354,350	\$ 69,715,228
Accumulated Depreciation	(33,572,633)	(31,344,222)
Net Plant in Service	<u>37,781,717</u>	<u>38,371,006</u>
Land	86,092	86,092
Construction in Progress	<u>554,345</u>	<u>1,019,179</u>
Total Capital Assets	<u>38,422,154</u>	<u>39,476,277</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents		
Restricted	79,630	128,331
Consumer Deposits	59,036	26,138
Noncurrent Investments:		
Unrestricted	62,848	(2,346,783)
Board Designated	8,500,000	10,381,000
Restricted	2,310,213	2,310,288
Notes Receivable - City of Spencer	670,930	312,500
Notes Receivable -Municipal Communications Utility	<u>3,000,000</u>	<u>3,000,000</u>
Total Noncurrent Assets	<u>14,682,657</u>	<u>13,811,474</u>
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	681,449	3,710,673
Board Designated	-	1,285,461
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$5,600 and \$75,000)	1,008,401	1,115,967
Unbilled Usage	433,242	435,545
Materials And Supplies Inventory	679,107	522,621
Fuel Inventory	378,936	358,972
Notes Receivable - City of Spencer	659,331	25,000
Notes Receivable - Employees	-	950
Prepayments and Other	<u>349,687</u>	<u>327,057</u>
Total Current Assets	<u>4,190,153</u>	<u>7,782,246</u>
Deferred Costs:		
Unamortized Bond Issue Costs	<u>108,005</u>	<u>121,789</u>
Total Assets	<u>\$ 57,402,969</u>	<u>\$ 61,191,786</u>

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
LIABILITIES AND NET ASSETS		
Bonds Payable:		
Bonds Payable	\$ 8,575,000	\$ 11,315,000
Less - Current Maturities	(595,000)	(1,090,000)
Total Bonds Payable	7,980,000	10,225,000
Current Liabilities:		
Accounts Payable	1,047,770	1,014,933
Payroll and Sales Tax Payable	18,557	45,350
Accrued Payroll and Compensated Absences	156,299	178,041
Accrued Interest Payable	29,878	37,453
Consumer Deposits	59,036	26,138
Current Maturities of Long-Term Debt	595,000	1,090,000
Total Current Liabilities	1,906,540	2,391,915
Total Liabilities	9,886,540	12,616,915
Net Assets		
Invested in Capital Assets, Net of Related Debt	29,847,154	28,161,277
Restricted-Debt Requirements	2,389,843	2,438,619
Unrestricted	15,279,432	17,974,975
Total Net Assets	\$ 47,516,429	\$ 48,574,871

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues:		
Residential	\$ 3,427,817	\$ 3,450,121
Commercial	4,775,279	5,525,319
Public Authorities	470,468	471,377
Sales for Resale	632,514	503,795
Energy Cost Adjustment Revenue	284,663	341,512
Penalties	18,295	18,129
Miscellaneous	28,277	30,023
Total Operating Revenues	9,637,313	10,340,276
Operating Expenses:		
Generation and Transmission		
Neal #4 Fuel and Generation	988,755	919,746
Walter Scott #4 Fuel and Generation	1,181,676	1,288,663
Purchased Power	4,155,594	3,450,850
Other	85,443	104,872
Distribution	1,590,631	1,354,272
Depreciation and Amortization	2,377,058	2,416,555
Customer Operations	315,504	323,115
General and Administrative	882,940	674,826
Total Operating Expenses	11,577,601	10,532,899
Operating Income (Loss)	(1,940,288)	(192,623)
Non-Operating Income (Expense):		
Interest Income on Investments	489,054	626,526
Economic Development Payment	(34,805)	(392,055)
Leased Facilities	1,951,047	1,641,705
Interest Expense	(444,927)	(536,292)
Gain (Loss) on Plant Retirements	4,415	(3,416)
Loss on Investment	(373,177)	-
Payment in Lieu of Property Taxes	(709,761)	(628,366)
Total Non-Operating Income (Expense)	881,846	708,102
Change in Net Assets	(1,058,442)	515,479
Net Assets at Beginning of Year	48,574,871	48,059,392
Net Assets at End of Year	\$ 47,516,429	\$ 48,574,871

See Accompanying Notes to Financial Statements

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**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 9,780,080	\$ 10,155,977
Cash Payments to Suppliers for Goods and Services	(8,483,846)	(7,394,013)
Cash Payments to Employees for Services	(931,475)	(710,805)
Cash Payments for Economic Development and In Lieu of Property Taxes	(744,566)	(1,020,421)
Payments Received From Leasing of Facilities	1,951,047	1,641,705
Net Cash Provided By Operating Activities	<u>1,571,240</u>	<u>2,672,443</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(1,936,605)	(2,337,597)
Revenue Bond Principal Repayment	(2,740,000)	(1,025,000)
Proceeds from Sale of Capital Assets	8,842	-
Interest Paid	(452,502)	(548,876)
Net Cash (Used) By Capital and Related Financing Activities	<u>(5,120,265)</u>	<u>(3,911,473)</u>
Cash Flows From Investing Activities:		
Payments Received on Note Receivable -City of Spencer	25,000	22,917
Loan Advances for Note Receivable -City of Spencer	(1,017,761)	-
Payments Received on Note Receivable Employee	950	3,258
Proceeds From Redemption of Investments	7,033,000	12,035,000
Purchase of Investments	(7,537,070)	(11,834,326)
Return on Investment	225,364	-
Interest Received From Investments	489,054	626,526
Net Cash Provided (Used) By Investing Activities	<u>(781,463)</u>	<u>853,375</u>
Net (Decrease) in Cash	<u>(4,330,488)</u>	<u>(385,655)</u>
Cash and Cash Equivalents at Beginning of Year	<u>5,150,603</u>	<u>5,536,258</u>
Cash and Cash Equivalents at End of Year	<u>\$ 820,115</u>	<u>\$ 5,150,603</u>
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 681,449	\$ 3,710,673
Board Designated	-	1,285,461
Restricted	79,630	128,331
Consumer Deposits	59,036	26,138
	<u>\$ 820,115</u>	<u>\$ 5,150,603</u>

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (Loss)	\$ (1,940,288)	\$ (192,623)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities		
Depreciation and Amortization	2,377,058	2,416,555
Leased Facilities Income	1,951,047	1,641,705
Contributions Paid for Economic Development	(34,805)	(392,055)
Payment in Lieu of Property Taxes	(709,761)	(628,366)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	107,566	(211,418)
Unbilled Usage	2,303	23,607
Materials and Supplies Inventory	(156,486)	50,829
Fuel Inventory	(19,964)	(48,217)
Prepayments	(22,630)	(59,979)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	32,837	107,494
Accrued Payroll and Compensated Absences	(48,535)	(38,601)
Consumer Deposits	32,898	3,512
Total Adjustments	<u>3,511,528</u>	<u>2,865,066</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,571,240</u></u>	<u><u>\$ 2,672,443</u></u>

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Electric Utility of the City of Spencer, Iowa (Electric Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Water Utility and the Municipal Communication Utility of the City of Spencer, Iowa, by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Boards has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise fund, the Utility applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new electric facilities. In addition, net interest costs on construction debt are capitalized. During 2009, the Utility did not have construction debt so no interest expense was capitalized.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.215% undivided interest in a 644 MW electric generation station known as George Neal Generating Station Unit No. 4. The Electric Utility's 1.215% ownership interest in this plant represents a total investment of \$4,861,403 included in utility plant in service with \$3,970,132 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.07% undivided interest in a 790 MW electric generation station known as Walter Scott, Jr. Energy Center Unit 4, which was placed in service in 2007. The Electric Utility's 1.07% ownership interest in this plant represents a total investment of \$14,627,555 included in utility plant in service with \$1,077,951 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Current depreciation expense is approximately 3.36% of the original cost of depreciable electric plant in service.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	20-33 years
Building and improvements	20 years
Equipment	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Unamortized Bond Issue Costs

Unamortized debt issue costs are amortized over the life of the debt on a straight-line basis which approximates the effective interest method.

F. Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

G. Income Taxes

The Electric Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

H. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2009, totaled \$433,242.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in Banks at December 31, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility's investments which consisted of Certificate of Deposits are protected per Chapter 12C of the Iowa Code, and credit risk and concentration risks do not apply.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments. Reconciliation of the Utility's cash and cash equivalents and noncurrent investments is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Board designated	\$ -	\$ 1,285,461
Consumer Deposits	59,036	26,138
Restricted	79,630	128,331
Unrestricted	681,449	3,710,673
Total cash and cash equivalents	<u>820,115</u>	<u>5,150,603</u>
Noncurrent investments:		
Unrestricted	62,848	(2,346,783)
Board designated	8,500,000	10,381,000
Restricted	2,310,213	2,310,288
Total noncurrent investments	<u>10,873,061</u>	<u>10,344,505</u>
Total cash and cash equivalents and noncurrent investments	<u>\$11,693,176</u>	<u>\$ 15,495,108</u>

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 3 - BOARD DESIGNATED FUNDS

The Board of Trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net assets, are being designated for contingencies such as a natural disaster, and cannot be expended without Board approval.

The Board of Trustees of the Utility has designated certain funds to be placed in a replacement and construction reserve account. These funds, which are from unrestricted net assets, are being designated for replacement of property, plant and equipment and for new construction. These funds cannot be expended without Board approval.

Assets of the funds as of December 31, 2009 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Noncurrent investments	\$ -	\$ 8,500,000	\$ 8,500,000

Assets of the funds as of December 31, 2008 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 1,285,461	\$ -	\$ 1,285,461
Noncurrent investments	-	10,381,000	10,381,000
Total	\$ 1,285,461	\$ 10,381,000	\$ 11,666,461

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 86,092	\$ -	\$ -	\$86,092
Construction in progress	1,019,179	156,255	(621,089)	554,345
Total capital assets not being depreciated	1,105,271	156,255	(621,089)	640,437
Capital assets being depreciated:				
Infrastructure	63,090,546	1,467,352	(131,512)	64,414,386
Buildings and improvements	706,775	-	-	706,775
Equipment	5,917,907	397,127	(93,845)	6,221,189
Total capital assets being depreciated	69,715,228	1,864,479	(225,357)	71,354,350
Less accumulated depreciation	31,344,222	2,305,469	(77,058)	33,572,633
Total capital assets being depreciated - net	38,371,006	(440,990)	(148,299)	37,781,717
Capital assets – net	\$39,476,277	\$(284,735)	\$(769,388)	\$38,422,154

Spencer Municipal Utilities had invested approximately \$599,000 for the development and construction of Sutherland Generating Station Unit 4. During March 2009 Interstate Power and Light, an Alliant Energy Company, cancelled plans to construct the plant. A cash settlement was negotiated and Spencer Municipal Utilities received \$225,365 and recognized a loss of \$373,177.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 86,092	\$ -	\$ -	\$ 86,092
Construction in progress	30,251	988,928	-	1,019,179
Total capital assets not being depreciated	116,343	988,928	-	1,105,271
Capital assets being depreciated:				
Infrastructure	62,044,557	1,066,258	(20,269)	63,090,546
Buildings and improvements	676,242	30,533	-	706,775
Equipment	5,704,867	213,040	-	5,917,907
Total capital assets being depreciated	68,425,666	1,309,831	(20,269)	69,715,228
Less accumulated depreciation	29,005,756	2,347,273	(8,807)	31,344,222
Total capital assets being depreciated - net	39,419,910	(1,037,442)	(11,462)	38,371,006
Capital assets – net	\$39,536,253	\$ (48,514)	\$ (11,462)	\$39,476,277

Note 5 - NOTES RECEIVABLE – EMPLOYEES

The Board of trustees had authorized the Electric Utility to purchase personal computers for interested employees. The employees repay the Utility through payroll withholding over a maximum of 24 months. No interest is charged on the unpaid balance. The program ended in August 2009 when all balances were paid in full.

Note 6 - TRANSFERS IN LIEU OF PROPERTY TAXES/NOTE RECEIVABLE

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales (excluding the energy cost adjustment), less actual property taxes paid (on the George Neal Generating Station Unit No. 4 and on the Walter Scott Jr. Unit No. 4) and returned to the City of Spencer, Iowa. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 6 - TRANSFERS IN LIEU OF PROPERTY TAXES/NOTE RECEIVABLE (Continued)

During 2007, the Utility loaned the City \$375,000 to fund the economic development loan to Shine Bros. Corp. The City reimburses the Utility in equal payments of \$2,083 without interest, payable monthly. The balance of this note at December 31, 2009 was \$312,500 and December 31, 2008 was \$337,500.

A loan agreement was executed on June 1, 2009 between Spencer Municipal Utilities and the City of Spencer. The City has the ability to borrow up to \$1,000,000 at 2.75% until the maturity date of December 1, 2010, at which time all principal and interest is due. The loan was for the purpose of covering the cost to construct street and sewer improvements at the Green Industrial Center site. As of December 2009, \$630,000 has been advanced and \$4,331 of interest was accrued.

A loan agreement was effective on July 15, 2009 between Spencer Municipal Utilities and the City of Spencer. The City borrowed \$383,430 for the purposes of loaning to Spencer Industries Foundation, Inc. The funds were used to construct an industrial building. The City is to repay the loan the earlier of the sale or lease of the building or by July 15, 2019. Interest will not accrue on the loan until July 15, 2014 at a rate of 3%.

Note 7 - NOTE RECEIVABLE – MUNICIPAL COMMUNICATIONS UTILITY

The Board of Trustees has approved an \$8,000,000 line of credit for the Municipal Communications Utility for use in start-up and construction costs related to bringing the Communications Utility into operation. The balance of the line of credit at December 31, 2009 and 2008 was \$3,000,000. Outstanding balances bear interest at a rate of 4.5% per annum.

Note 8 – BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2004 revenue bonds	\$ 6,775,000	\$ -	\$2,170,000	\$4,605,000	\$ -
Series 2008 revenue bonds	4,540,000	-	570,000	3,970,000	595,000
Total revenue bonds	<u>\$11,315,000</u>	<u>\$ -</u>	<u>\$2,740,000</u>	<u>\$8,575,000</u>	<u>\$595,000</u>

During 2009, a principal payment in the amount of \$1,650,000 was paid on the 2004 revenue bonds. The next principal payment due on the 2004 bonds is December 1, 2013.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 8 – BONDS PAYABLE (Continued)

The Series 2004 and 2008 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds range between 1.4% and 4.6 %. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

	Series 2008		Series 2004	
	Principal	Interest	Principal	Interest
2010	595,000	173,050	-	187,478
2011	620,000	147,763	-	187,478
2012	645,000	121,412	-	187,478
2013	670,000	94,000	585,000	187,478
2014	700,000	65,190	605,000	166,418
2015-2018	740,000	34,040	3,415,000	450,215
Total	\$ 3,970,000	\$ 635,455	\$ 4,605,000	\$ 1,366,545

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Revenue Bonds

The Utility has pledged future utility revenue, net of specified operating expenses, to repay outstanding utility revenue bonds. The bonds are payable solely from the utility's net revenues and are payable through 2019. The total principal and interest remaining to be paid on the bonds is \$10,576,998. Principal and interest due for the current year and total combined utilities net revenues were \$1,539,433 and \$436,770, respectively. Total principal and interest paid during the current year was \$3,191,322.

Restricted Funds

Outstanding Electric Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2009 the Utility is in compliance with all bond covenant requirements.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 8 – BONDS PAYABLE (Continued)

At December 31, 2009, the special funds consisted of the following:

	Cash and Cash Equivalents	Noncurrent Investments	Total
Bond Sinking Fund	\$ 79,630	\$ -	\$ 79,630
Bond Reserve Fund	-	1,559,797	1,559,797
Bond Improvement Fund	-	750,416	750,416
Total Restricted Net Assets	\$ 79,630	\$ 2,310,213	\$ 2,389,843

Monthly deposits into two bond sinking funds are required to establish the amount necessary to pay the next installments of principal and interest on the 2004 and 2008 Electric Revenue Bonds. Bond reserve funds for the 2004 and 2008 Electric Revenue Bonds equaled the required balance at December 31, 2009; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

The bond improvement fund balance at December 31, 2009 equaled the minimum balance required; therefore monthly deposits into the fund are not currently required. These funds are to be used first for principal and interest payments when insufficient funds are available in the sinking and reserve funds and second for extraordinary unbudgeted maintenance expenses or system repairs, renewals and replacements.

Note 9 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 10 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 6,073 and 6,038 at December 31, 2009 and 2008, respectively.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 11 - LEASES

The Utility leases electrical generation capacity of a jet turbine generator, its share of the Neal 4 plant, its share of the Wisdom 2 plant, and its share of the Walter Scott 4 plant under operating leases to other utilities or their associations. The revenues from such leases are classified as leased facilities. The Utility's investment in these facilities is included in capital assets in service and is set forth as follows:

	2009	2008
Jet turbine generator	\$ 2,537,488	\$ 2,537,488
Neal 4 plant	4,883,410	4,861,403
Wisdom 2 plant	2,314,530	2,314,530
Walter Scott 4 plant	14,627,555	14,554,974
Total	24,362,983	24,268,395
Less accumulated depreciation	7,570,782	6,888,638
Net investment	<u>\$ 16,792,201</u>	<u>\$ 17,379,757</u>

The lease of the Neal 4, Walter Scott 4 and Wisdom 2 plant are long-term commitments based on capacity. The amount is determined by formula based on usage and totaled \$134,122, \$916,059 and \$159,604, respectively, in 2009. The amount is determined by formula based on usage and totaled \$159,301, \$700,820 and \$139,024, respectively, in 2008. The leases of the jet turbine generator are both by non-cancelable lease and a variable lease determined by capacity and totaled \$141,962 in 2009 and \$148,514 in 2008. The following is a schedule of future minimum rentals on non-cancelable operating leases on the jet turbine generator as of December 31, 2009:

2010	65,000
2011	65,000
2012	65,000
2013	65,000
2014	65,000
Total minimum lease payment receivable	<u>\$ 325,000</u>

The Utility leases bandwidth, property, and building space to the Water Utility and Communications Utility. The revenues from such leases are classified as leased facilities and totaled \$431,718 and \$429,439 in 2009 and 2008, respectively. The leases are 20-year variable leases based on bandwidth and space utilized. The payable at December 31, 2009 and 2008 was \$412,358 and \$408,319, respectively.

The Utility leases building space from the Water Utility. The expense from the lease is classified as operating expense. The lease is a monthly lease based on building space utilized and totaled \$9,600 and \$8,000 in 2009 and 2008, respectively. The payable at December 31, 2009 and 2008 was \$9,600 and \$8,000, respectively.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 12 - RETIREMENT SYSTEM

IPERS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 4.10% through June 30, 2009 and 4.30% presently of their annual salary and the Utility was required to contribute 6.35% through June 30, 2008 and 6.65% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$111,230, \$108,221 and \$95,983, respectively, equal to the required contributions for the year.

Employees Pension Plan

All full-time employees of the Electric Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Electric Utility's contribution to the 457b Pension Plan for 2009 and 2008 totaled \$135,185 and \$133,749, respectively.

Note 13 – OTHER POST EMPLOYMENT BENEFITS

During fiscal 2008, the Utility adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded at June 30, 2009 for a Post-Employment Benefit Obligation as determined by an actuarial calculation.

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in a implicit subsidy and an OPEB liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 13 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 14,975	\$ 14,251
Interest on net OPEB obligation	399	-
Adjustment to annual required contribution	<u>(577)</u>	<u>-</u>
Annual OPEB cost (Expense)	14,797	14,251
Contributions made	<u>(5,401)</u>	<u>(4,277)</u>
Increase in net OPEB obligation	9,396	9,974
Net OPEB obligation - beginning of year	<u>9,974</u>	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 19,370</u>	<u>\$ 9,974</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 14,797	36.5%	\$ 19,370
2008	\$ 14,251	30.0%	\$ 9,974

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2009 was as follows:

	<u>2009</u>	<u>2008</u>
Actuarial accrued liability (AAL)	\$142,863	\$133,585
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$142,863	\$133,585
Covered payroll (active members)	\$1,698,615	\$1,648,850
UAAL as a percentage of covered payroll	8.4%	8.1%

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 13 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 4.5%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 14 - RISK MANAGEMENT

The Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limits. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility, as is typical in the electric power industry, does not insure its transmission or distribution lines due to the high cost of such coverage.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 15 - RELATED PARTIES

The Electric Utility, Water Utility and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Two members of the Board of Trustees hold non-controlling interests in a financial institution where the Utility maintains cash balances.

Additional related party items are included in Notes 7 and 11.

Note 16 - COMMITMENTS

Beginning in 2009, the Electric Utility pledged support to the Iowa Great Lakes Corridor of Opportunity at a level of \$25,000 per year for four years. This commitment is subject to annual review by the Utility Board

During 2008, the Electric Utility pledged support for the Streetlights on the Grand Avenue Project from 8th to 18th up to \$625,000. The project was completed in February 2010 with an approximate cost of \$543,096.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2009**

	Budgeted	Actual	Final to Actual Variance
Receipts:			
Municipal Electric Utility		\$ 11,594,692	
Municipal Water Utility		1,344,154	
Municipal Communications Utility		5,202,324	
Total Receipts	\$ 23,205,951	18,141,170	\$ (5,064,781)
Expenditures:			
Municipal Electric Utility		15,288,994	
Municipal Water Utility		1,728,604	
Municipal Communications Utility		5,610,595	
Total Expenditures	24,756,278	22,628,193	2,128,085
Excess (Deficiency) of Revenues Over Expenditures	(1,550,327)	(4,487,023)	(2,936,696)
Other Financing Sources (Uses);			
Transfers Out	(2,600,000)	-	2,600,000
Net Change in Net Assets	(4,150,327)	(4,487,023)	(336,696)
Net Assets at Beginning of Year	22,194,185	22,194,185	-
Net Assets at End of Year	\$ 18,043,858	\$ 17,707,162	\$ (336,696)

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2009**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 11,594,692	\$ 487,137	\$ 12,081,829
Municipal Water Utility	1,344,154	(18,238)	1,325,916
Municipal Communications Utility	5,202,324	1,680,872	6,883,196
Total Receipts	<u>18,141,170</u>	<u>2,149,771</u>	<u>20,290,941</u>
Expenditures:			
Municipal Electric Utility	15,288,994	(2,148,723)	13,140,271
Municipal Water Utility	1,728,604	(18,717)	1,709,887
Municipal Communications Utility	5,610,595	703,489	6,314,084
Total Expenditures	<u>22,628,193</u>	<u>(1,463,951)</u>	<u>21,164,242</u>
Net Change in Net Assets	(4,487,023)	3,613,722	(873,301)
Net Assets at Beginning of Year	<u>22,194,185</u>	<u>42,358,639</u>	<u>64,552,824</u>
Net Assets at End of Year	<u>\$ 17,707,162</u>	<u>\$ 45,972,361</u>	<u>\$ 63,679,523</u>

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each individual utility.

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities function and are required to be budgeted. All Utility disbursements are included in business type activities. During the year, one budget amendment decreased budgeted disbursements by \$11,441,222. This budget amendment is reflected in the final budgeted amounts.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, Iowa 51301

We have audited the basic financial statements of Municipal Electric Utility of the City of Spencer, Iowa (Spencer Municipal Utility) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 6, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Spencer Municipal Utility as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Spencer Municipal Utility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spencer Municipal Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer Municipal Utility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Spencer Municipal Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Spencer Municipal Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer Municipal Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Spencer Municipal Utility's responses, we did not audit Spencer Municipal Utility's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spencer and other parties to whom Spencer Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009**

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weakness.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCY:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009**

Part III: Other Findings Related to Required Statutory Reporting

III-A-09 Certified Budget – Disbursements during the year ended December 31, 2009 did not exceed the amounts budgeted in the business type activities function.

III-B-09 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-09 Travel Expenses – No expenditures of the Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-D-09 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Howe, Board Member Part owner of H & N Chevrolet	Maintenance & Repairs Purchase Vehicle	\$ 930 (1) \$ 42,055 (2)
Dave Hultgren, Board Member Owner, Northwest Equipment	Maintenance & Repairs	\$ 22 (1)
Rebecca Florke Child of employee	Cleaning Services	\$ 1,388 (1)
Shelby Scholten Child of employee	Cleaning Services	\$ 1,313 (1)

(1) In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board Member do not appear to represent conflicts of interest since total transactions with each were less than \$1,500 during the year.

(2) Competitive bids were taken for purchase of the company vehicle.

III-E-09 Bond Coverage – Surety bond coverage of Spencer Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-09 Revenue Bonds – As of December 31, 2009 the Utility is in compliance with all bond covenant requirements.

III-H-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility's investment policy were noted.

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA**

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, IA 51301

We have audited the accompanying statements of net assets of the Municipal Water Utility of the City of Spencer, Iowa (the Utility) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2010 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for 2009 on pages 34 through 36 and 54 through 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Water Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2009 and 2008.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2009 Financial Highlights

The Utility delivered approximately 407,714,000 gallons of water to its retail customers in 2009 compared to approximately 444,709,000 gallons in 2008.

The Utility's net assets decreased by \$383,971 to \$6,788,418 as a result of operations for the year ended December 31, 2009.

Overview of the Financial Statements

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statement of revenues, expenses and changes in net assets report all revenues and expenses incurred during the fiscal year.

The Statement of Cash Flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheet

	<u>2009</u>	<u>2008</u>
Capital assets, net of depr.	5,820,703	5,656,807
Noncurrent assets	1,168,804	1,194,489
Current assets	1,470,001	1,931,305
Deferred costs	9,424	10,648
Total assets	<u>\$8,468,932</u>	<u>\$8,793,249</u>
Long-term debt	\$957,000	\$1,026,000
Current liabilities	723,514	594,860
Total liabilities	<u>\$1,680,514</u>	<u>\$1,620,860</u>
Investments in capital assets, net of related debt	\$4,794,703	\$4,564,807
Restricted	168,804	194,489
Unrestricted	1,824,911	2,413,093
Total net assets	<u>6,788,418</u>	<u>7,172,389</u>
Total liabilities and net assets	<u>\$8,468,932</u>	<u>\$8,793,249</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Sales of water	\$1,171,820	\$1,158,443
Other	9,405	25,531
Total operating revenue	<u>1,181,225</u>	<u>1,183,974</u>
System operation & maintenance	1,110,514	832,870
Depreciation & amortization	377,127	337,878
Customer service & administration	128,145	140,281
Total operating expenses	<u>1,615,786</u>	<u>1,311,029</u>
Operating loss	(434,561)	(127,055)
Interest income	13,934	69,786
Interest expense	(38,697)	(44,100)
Other income (expense)	75,353	27,310
Total non-operating revenues	50,590	52,996
Change in net assets	(\$383,971)	(\$74,059)
Net assets, beginning of year	<u>7,172,389</u>	<u>7,246,448</u>
Net assets, end of year	<u>\$6,788,418</u>	<u>\$7,172,389</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets decreased by approximately \$324,000.

The Utility's gross revenues decreased by approximately \$2,700 or 0.23%.

Total operating expenses increased by approximately \$305,000 due to increased expenses related to the maintenance of meters and replacement and distribution maintenance.

Total operating loss generated in 2009 was \$434,561 compared to \$127,055 in 2008.

Contributions in Aid of Construction totaled \$83,100 for the year ended December 31, 2009 compared to \$57,871 for the year ended December 31, 2008.

The Utility had a net loss of \$383,971 for the year ended December 31, 2009 compared to a net loss of \$74,059 for the year ended December 31, 2008.

Capital Assets and Debt Administration

Net capital assets increased by approximately \$164,000 due to construction of water mains and purchase of capital assets during the year ended December 31, 2009.

Economic Factors

During the year ended December 31, 2009, the Utility experienced a net loss of \$383,971. Due to the operating loss and projected future expenses, a rate adjustment effective with consumption beginning June 1, 2010 was proposed to the Board in its April 14th meeting. This rate adjustment will increase revenues for the remainder of FY 2010 by \$446,000.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Supervisor, 712 Grand Ave, PO Box 222, Spencer, Iowa 51301.

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**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
ASSETS		
Capital Assets:		
Plant in Service	\$ 12,144,799	\$ 11,602,686
Accumulated Depreciation	(6,582,629)	(6,206,732)
Net Plant in Service	<u>5,562,170</u>	<u>5,395,954</u>
Land	258,533	258,533
Construction in Progress	<u>-</u>	<u>2,320</u>
Total Capital Assets	<u>5,820,703</u>	<u>5,656,807</u>
Noncurrent Assets:		
Cash and Cash Equivalents		
Restricted	168,804	194,489
Noncurrent Investments		
Board Designated	<u>1,000,000</u>	<u>1,000,000</u>
Total Noncurrent Assets	<u>1,168,804</u>	<u>1,194,489</u>
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	414,284	394,048
Board Designated	719,106	1,098,106
Accounts Receivable (Net of Allowance for Doubtful		
Accounts of \$2,000 and \$10,000)	218,108	305,705
Unbilled Usage	43,827	46,239
Materials And Supplies Inventory	68,109	79,438
Prepayments and Other	<u>6,567</u>	<u>7,769</u>
Total Current Assets	<u>1,470,001</u>	<u>1,931,305</u>
Deferred Costs:		
Unamortized Bond Issue Costs	<u>9,424</u>	<u>10,648</u>
Total Assets	<u>\$ 8,468,932</u>	<u>\$ 8,793,249</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
LIABILITIES AND NET ASSETS		
Bonds Payable:		
Bonds Payable	\$ 1,026,000	\$ 1,092,000
Less - Current Maturities	(69,000)	(66,000)
Total Bonds Payable	<u>957,000</u>	<u>1,026,000</u>
Current Liabilities:		
Accounts Payable	629,140	490,844
Payroll and Sales Tax Payable	1,449	13,292
Accrued Payroll and Compensated Absences	17,395	16,226
Accrued Interest Payable	6,530	8,498
Current Maturities of Long-Term Debt	69,000	66,000
Total Current Liabilities	<u>723,514</u>	<u>594,860</u>
Total Liabilities	<u>1,680,514</u>	<u>1,620,860</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,794,703	4,564,807
Restricted-Debt Requirements	168,804	194,489
Unrestricted	1,824,911	2,413,093
Total Net Assets	<u>\$ 6,788,418</u>	<u>\$ 7,172,389</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues:		
Residential	\$ 797,072	\$ 790,164
Commercial	374,748	368,279
Service Permits	7,975	16,265
Rental Income	-	8,250
Miscellaneous	1,430	1,016
Total Operating Revenues	1,181,225	1,183,974
Operating Expenses:		
Treatment	407,490	413,034
Distribution	703,024	419,836
Depreciation and Amortization	377,127	337,878
Customer Operations	52,538	55,516
General and Administrative	75,607	84,765
Total Operating Expenses	1,615,786	1,311,029
Operating (Loss)	(434,561)	(127,055)
Non-Operating Income (Expense):		
Interest Income on Investments	13,934	69,786
Contributions From Developers	83,100	57,871
Leased Facilities	35,468	21,974
Interest Expense	(38,697)	(44,100)
Bond Amortization Expense	(1,224)	(1,224)
Inventory Sales	11,523	2,869
Gain on Plant Retirements	666	-
Payment in Lieu of Property Taxes	(54,180)	(54,180)
Total Non-Operating Income	50,590	52,996
Change in Net Assets	(383,971)	(74,059)
Net Assets at Beginning of Year	7,172,389	7,246,448
Net Assets at End of Year	\$ 6,788,418	\$ 7,172,389

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**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 1,282,563	\$ 1,076,640
Cash Payments to Suppliers for Goods and Services	(1,023,554)	(788,787)
Cash Payments to Employees for Services	(86,281)	(82,730)
Cash Payments In Lieu of Property Taxes	(54,180)	(54,180)
Payments Received From Leasing of Facilities	35,468	21,974
	<hr/>	<hr/>
Net Cash Provided By Operating Activities	154,016	172,917
	<hr/>	<hr/>
Cash Flows From Noncapital Financing Activities:		
Payment in Lieu of Property Taxes	-	-
	<hr/>	<hr/>
Net Cash (Used) By Noncapital Financing Activities	-	-
	<hr/>	<hr/>
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(460,635)	(655,103)
Proceeds from Sale of Capital Assets	666	-
Revenue Bond Principal Repayment	(66,000)	(65,000)
Payments Received From Sale of Inventory	11,523	2,869
Interest Paid	(37,953)	(43,162)
	<hr/>	<hr/>
Net Cash (Used) By Capital and Related Financing Activities	(552,399)	(760,396)
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Interest Received From Investments	13,934	69,786
	<hr/>	<hr/>
Net Cash Provided By Investing Activities	13,934	69,786
	<hr/>	<hr/>
Net (Decrease) in Cash	(384,449)	(517,693)
	<hr/>	<hr/>
Cash and Cash Equivalents at Beginning of Year	1,686,643	2,204,336
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 1,302,194	\$ 1,686,643
	<hr/>	<hr/>
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 414,284	\$ 394,048
Restricted	168,804	194,489
Board Designated	719,106	1,098,106
	<hr/>	<hr/>
	\$ 1,302,194	\$ 1,686,643
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See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (Loss)	\$ (434,561)	\$ (127,055)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities		
Depreciation and Amortization	377,127	337,878
Leased Facilities Income	35,468	21,974
Payment in Lieu of Property Taxes	(54,180)	(54,180)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	87,597	(89,943)
Unbilled Usage	2,412	(5,104)
Materials and Supplies Inventory	11,329	(12,287)
Prepayments	1,202	212
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	138,296	99,387
Accrued Payroll and Compensated Absences	(10,674)	2,035
Total Adjustments	<u>588,577</u>	<u>299,972</u>
Net Cash Provided By Operating Activities	<u><u>\$ 154,016</u></u>	<u><u>\$ 172,917</u></u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Water Utility of the City of Spencer, Iowa (Water Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Communication Utility of the City of Spencer, Iowa by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise fund, the Utility applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new water facilities. In addition, net interest costs on construction debt are capitalized.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Current depreciation expense is approximately 2.84% of the original cost of depreciable water plant in service.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	40 years
Buildings and Equipment	5-20 years
Vehicles	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Unamortized Bond Issue Costs

Unamortized debt issue costs are amortized over the life of the debt on a straight line basis which approximates the effective interest method.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Income Taxes

The Water Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

H. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2009, totaled \$43,827.

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in bank at December 31, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS (Continued)

Interest Rate Risk – The Utility’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility’s investments which consisted of Certificate of Deposits are protected per Chapter 12C of the Iowa Code, and credit risk and concentration risks do not apply.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments.

Reconciliation of the Utility’s cash and cash equivalents and noncurrent investments is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Board designated	\$ 719,106	\$ 1,098,106
Restricted	168,804	194,489
Unrestricted	414,284	394,408
Total cash and cash equivalents	<u>1,302,194</u>	<u>1,686,643</u>
Noncurrent investments:		
Board designated	<u>1,000,000</u>	<u>1,000,000</u>
Total noncurrent investments	<u>1,000,000</u>	<u>1,000,000</u>
Total cash and cash equivalents and noncurrent investments	<u>\$ 2,302,194</u>	<u>\$ 2,686,643</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 3 - BOARD DESIGNATED FUNDS

The Board of trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net assets, are being designated for contingencies such as a natural disaster and cannot be expended without Board approval.

The Board of Trustees of the Utility has designated certain funds to be placed in a replacement and construction reserve account. These funds, which are from unrestricted net assets, are being designated for replacement of property, plant, and equipment and for new construction. These funds cannot be expended without Board approval.

Assets of the funds as of December 31, 2009 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 469,106	\$ 250,000	\$ 719,106
Noncurrent investments	-	1,000,000	1,000,000
Total	<u>\$ 469,106</u>	<u>\$ 1,250,000</u>	<u>\$ 1,719,106</u>

Assets of the funds as of December 31, 2008 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 469,106	\$ 629,000	\$ 1,098,106
Noncurrent investments	-	1,000,000	1,000,000
Total	<u>\$ 469,106</u>	<u>\$ 1,629,000</u>	<u>\$ 2,098,106</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 258,533	\$ -	\$ -	\$ 258,533
Construction in progress	2,320	2,300	(4,620)	-
Total capital assets not being depreciated	260,853	2,300	(4,620)	258,533
Capital assets being depreciated:				
Infrastructure	7,145,067	445,192	-	7,590,259
Buildings and equipment	4,273,897	83,334	(10,920)	4,346,311
Vehicles	183,722	25,782	(1,275)	208,229
Total capital assets being depreciated	11,602,686	554,308	(12,195)	12,144,799
Less accumulated depreciation	6,206,732	377,127	(1,230)	6,582,629
Total capital assets being depreciated - net	5,395,954	177,181	(10,965)	5,562,170
Capital assets - net	\$ 5,656,807	\$ 179,481	(15,585)	\$ 5,820,703

Capital assets activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 258,533	\$ -	\$ -	\$ 258,533
Construction in progress	25,267	36,751	(59,698)	2,320
Total capital assets not being depreciated	283,800	36,751	(59,698)	260,853
Capital assets being depreciated:				
Infrastructure	6,742,963	402,104	-	7,145,067
Buildings and equipment	3,971,893	302,004	-	4,273,897
Vehicles	150,909	32,813	-	183,722
Total capital assets being depreciated	10,865,765	736,921	-	11,602,686
Less accumulated depreciation	5,868,854	337,878	-	6,206,732
Total capital assets being depreciated - net	4,996,912	399,043	-	5,395,954
Capital assets - net	\$ 5,280,711	\$ 435,794	\$ (59,698)	\$ 5,656,807

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 5 - SEWER, STORM WATER, AND SOLID WASTE

The Electric Utility bills and collects sewer, storm water, and solid waste revenues for the City of Spencer. The resulting receivable and corresponding payable are recorded under the Water Utility. The City of Spencer reimburses the Electric Utility for these services.

Note 6 - TRANSFERS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

Note 7 - BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2009 was as follows:

	Beginning			Ending	Amounts
	Balance	Additions	Reductions	Balance	Due Within One Year
Series 2000 revenue bonds	\$1,092,000	\$ -	\$ 66,000	\$1,026,000	\$ 69,000
Total revenue bonds	\$1,092,000	\$ -	\$ 66,000	\$1,026,000	\$ 69,000

The Series 2000 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rate throughout the term of the bonds is 3.84%. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

	Series 2000	
	Principal	Interest
2010	69,000	38,074
2011	72,000	35,366
2012	74,000	32,563
2013	77,000	29,664
2014	80,000	26,650
2015-2019	449,000	83,808
2020-2021	205,000	7,929
Total	\$ 1,026,000	\$ 254,054

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 7 – BONDS PAYABLE (Continued)

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Revenue Bonds

The Utility has pledged future utility revenue, net of specified operating expenses, to repay outstanding utility revenue bonds. The bonds are payable solely from the utility's net revenues and are payable through 2021. The total principal and interest remaining to be paid on the bonds is \$1,280,054. Principal and interest paid for the current year and total combined utilities net revenues were \$106,666 and (\$57,434), respectively.

Restricted Funds

Outstanding Water Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2009 the Utility is in compliance with all bond covenant requirements except the Net Revenue requirement.

The special funds consisted of the following:

	2009	2008
Bond Sinking Fund	\$ 53,804	\$ 79,489
Bond Reserve Fund	115,000	115,000
Total	<u>\$ 168,804</u>	<u>\$ 194,489</u>

Monthly deposits into the bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest. The bond reserve fund at December 31, 2009 equaled the required balance; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 8 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 9 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 5,751 and 5,714 at December 31, 2009 and 2008, respectively.

Note 10 - LEASES

The Utility leases building space to the Electric Utility and Communications Utility. The revenues from such leases are classified as leased facilities. The leases are monthly leases based on building space utilized and totaled \$11,968 \$9,974 in 2009 and 2008, respectively. The receivable at December 31, 2009 2008 and was \$11,968 and \$9,974, respectively.

The Utility lease bandwidth and building space from the Electric and Communications Utilities. The expense from such leases is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$23,418 and \$23,035 in 2009 and 2008, respectively. The payable at December 31, 2009 and 2008 was \$4,058 and \$23,035, respectively.

Note 11 - RETIREMENT SYSTEM

IPERS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 4.10% through June 30, 2009 and 4.30% presently of their annual salary and the Utility was required to contribute 6.35% through June 30, 2008 and 6.65% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$19,305, \$17,880 and \$11,545, respectively, equal to the required contributions for each year.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 11 - RETIREMENT SYSTEM (Continued)

EMPLOYEES PENSION PLAN

All full-time employees of the Water Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Water Utility's contribution to the Money Accumulation Pension Plan for 2009 and 2008 totaled \$21,321 and \$21,531, respectively.

Note 12 - OTHER POST EMPLOYMENT BENEFITS

During fiscal 2008, the Utility adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded at June 30, 2009 for a Post-Employment Benefit Obligation as determined by an actuarial calculation.

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in a implicit subsidy and an OPEB liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 2,164	\$ 2,021
Interest on net OPEB obligation	81	-
Adjustment to annual required contribution	(117)	-
Annual OPEB cost (Expense)	<u>2,128</u>	<u>2,021</u>
Contributions made	(11)	-
Increase in net OPEB obligation	<u>2,117</u>	<u>2,021</u>
Net OPEB obligation - beginning of year	2,021	-
Net OPEB obligation - end of year	<u>\$ 4,138</u>	<u>\$ 2,021</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 12 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 2,128	0.5%	\$ 4,138
2008	\$ 2,021	0.0%	\$ 2,021

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2009 was as follows:

	2009	2008
Actuarial accrued liability (AAL)	\$13,726	\$11,713
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$13,726	\$11,713
Covered payroll (active members)	\$370,906	\$360,103
UAAL as a percentage of covered payroll	3.7%	3.3%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 12 – OTHER POST EMPLOYMENT BENEFITS (Continued)

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 4.5%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 13 - RISK MANAGEMENT

The Water Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 14 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Two members of the Board of Trustees hold non-controlling interests in a financial institution where the Utility maintains cash balances.

Additional related party items are included in Note 10.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUND - CASH BASIS
FOR YEAR ENDED DECEMBER 31, 2009**

	Budgeted	Actual	Final to Actual Variance
Receipts:			
Municipal Electric Utility		\$ 11,594,692	
Municipal Water Utility		1,344,154	
Municipal Communications Utility		5,202,324	
Total Receipts	\$ 23,205,951	18,141,170	\$ (5,064,781)
Expenditures:			
Municipal Electric Utility		15,288,994	
Municipal Water Utility		1,728,604	
Municipal Communications Utility		5,610,595	
Total Expenditures	24,756,278	22,628,193	2,128,085
Excess (Deficiency) of Revenues Over Expenditures	(1,550,327)	(4,487,023)	(2,936,696)
Other Financing Sources (Uses);			
Transfers Out	(2,600,000)	-	2,600,000
Net Change in Net Assets	(4,150,327)	(4,487,023)	(336,696)
Net Assets at Beginning of Year	22,194,185	22,194,185	-
Net Assets at End of Year	\$ 18,043,858	\$ 17,707,162	\$ (336,696)

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2009**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 11,594,692	\$ 487,137	\$ 12,081,829
Municipal Water Utility	1,344,154	(18,238)	1,325,916
Municipal Communications Utility	5,202,324	1,680,872	6,883,196
Total Receipts	<u>18,141,170</u>	<u>2,149,771</u>	<u>20,290,941</u>
Expenditures:			
Municipal Electric Utility	15,288,994	(2,148,723)	13,140,271
Municipal Water Utility	1,728,604	(18,717)	1,709,887
Municipal Communications Utility	5,610,595	703,489	6,314,084
Total Expenditures	<u>22,628,193</u>	<u>(1,463,951)</u>	<u>21,164,242</u>
Net Change in Net Assets	(4,487,023)	3,613,722	(873,301)
Net Assets at Beginning of Year	<u>22,194,185</u>	<u>42,358,639</u>	<u>64,552,824</u>
Net Assets at End of Year	<u>\$ 17,707,162</u>	<u>\$ 45,972,361</u>	<u>\$ 63,679,523</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each individual utility.

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities function and are required to be budgeted. All Utility disbursements are included in business type activities. During the year, one budget amendment decreased budgeted disbursements by \$11,441,222. This budget amendment is reflected in the final budgeted amounts.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, Iowa 51301

We have audited the basic financial statements of Municipal Water Utility of the City of Spencer, Iowa (Spencer Municipal Utility) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 6, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Spencer Municipal Utility as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Spencer Municipal Utility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spencer Municipal Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer Municipal Utility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Spencer Municipal Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Spencer Municipal Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer Municipal Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Spencer Municipal Utility's responses, we did not audit Spencer Municipal Utility's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spencer and other parties to whom Spencer Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCY:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009**

Part III: Other Findings Related to Required Statutory Reporting

III-A-09 Certified Budget – Disbursements during the year ended December 31, 2009 did not exceed the amounts budgeted in the business type activities function.

III-B-09 Questionable Expenditures – We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-09 Travel Expenses – No expenditures of Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-D-09 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Howe, Board Member Part owner of H & N Chevrolet	Maintenance & Repairs	5
Dave Hulgren, Board Member Northwest Equipment, Inc.	Filters	28

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board Member do not appear to represent conflicts of interest since total transactions with each were less than \$1,500 during the year.

III-E-09 Bond Coverage – Surety bond coverage of Spencer Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-09 Revenue Bonds – As of December 31, 2009 the Utility is in compliance with all bond covenant requirements except the Net Revenue requirement.

III-H-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility's investment policy were noted.

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA**

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, IA 51301

We have audited the accompanying statements of net assets of the Municipal Communications Utility of the City of Spencer, Iowa (the Utility) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2010 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for 2009 on pages 62 through 64 and 79 through 81 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Communications Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2009 and 2008.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2009 Financial Highlights

Total assets increased by approximately \$720,000 which was attributable to a decrease in the cash balance and a decrease in the allowance for doubtful accounts pertaining to access conference revenue.

Total net assets increased by \$569,112 as the result of the utility operations.

Overview of the Financial Statements

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statement of revenues, expenses and changes in net assets report all revenues and expenses incurred during the fiscal year.

The Statement of Cash Flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheet

	<u>2009</u>	<u>2008</u>
Current assets	\$7,523,299	\$6,200,107
Capital assets, net of depreciation	5,250,702	5,889,315
Noncurrent assets	<u>772,470</u>	<u>737,284</u>
Total assets	<u>\$13,546,471</u>	<u>\$12,826,706</u>
Current liabilities	\$1,127,395	\$1,021,142
Long-term debt	<u>3,044,400</u>	<u>3,000,000</u>
Total liabilities	<u>\$4,171,795</u>	<u>\$4,021,142</u>
Investments in capital assets, net of related debt	\$2,250,702	\$2,889,315
Unrestricted	<u>7,123,974</u>	<u>5,916,249</u>
Total net assets	<u>9,374,676</u>	<u>8,805,564</u>
Total liabilities and net assets	<u>\$13,546,471</u>	<u>\$12,826,706</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Cable television revenue	\$1,426,881	\$1,281,679
Telephone revenue	3,930,105	3,351,848
Data revenue	1,256,262	1,143,210
Miscellaneous revenue	<u>12,049</u>	<u>10,021</u>
Total operating revenue	<u>6,625,297</u>	<u>5,786,758</u>
System operation & maintenance	3,851,798	3,384,735
Depreciation & amortization	1,131,215	963,370
Customer service & administration	<u>934,532</u>	<u>1,023,534</u>
Total operating expenses	<u>5,917,545</u>	<u>5,371,639</u>
Operating income (loss)	707,572	415,119
Interest income	29,412	107,092
Interest expense	(137,191)	(136,478)
Other income (expense)	<u>(30,861)</u>	<u>(834,297)</u>
Total non-operating revenues	<u>(138,640)</u>	<u>(863,683)</u>
Change in net assets	\$569,112	(\$448,564)
Net assets, beginning of year	<u>8,805,564</u>	<u>9,254,128</u>
Net assets, end of year	<u>\$9,374,676</u>	<u>\$8,805,564</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets increased by approximately \$720,000.

The Utility's gross revenues increased by approximately \$838,539 or 14.49%.

Total operating expenses increased by approximately \$378,000 because of increased expenses for cable programming, telephone long distance, an increase in the number of subscribers and an increase in vehicle maintenance. Depreciation and amortization expense increased by approximately \$168,000.

Total operating income generated in 2009 was \$707,752 compared to \$415,119 in 2008.

The Utility had a net income of \$569,112 for the year ended December 31, 2009 compared to a net loss of \$448,564 for the year ended December 31, 2008.

Capital Assets and Debt Administration

Net capital assets decreased by approximately \$639,000 due to depreciation exceeding assets placed in service for the year ended December 31, 2009.

Economic Factors

The Utility continues to see stable growth in subscriber base. The Utility will be faced with increased costs of operating due to cable programming contracts. There is also uncertainty as to the outcome of legal litigation concerning collectable access revenues. Management remains conservative in estimating access collectable balance.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Supervisor, 712 Grand Ave, PO Box 222, Spencer, Iowa 51301.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,627,094	\$ 4,035,365
Consumer Deposits	61,924	63,329
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$70,000 and \$50,000)	3,345,348	1,423,600
Unbilled Usage	350,746	582,851
Materials And Supplies Inventory	74,857	56,654
Prepayments and Other	63,330	38,308
Total Current Assets	7,523,299	6,200,107
Capital Assets:		
Land	10,342	10,342
Property and Equipment	12,157,473	11,672,260
Accumulated Depreciation	(6,917,113)	(5,793,287)
Total Capital Assets	5,250,702	5,889,315
Deferred Costs:		
Unamortized Bond Issue Costs	10,792	15,588
Noncurrent Assets:		
Long-term Receivables	761,678	721,696
Total Assets	13,546,471	12,826,706
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	998,713	874,441
Payroll and Sales Tax Payable	8,063	36,068
Accrued Payroll and Compensated Absences	56,295	47,304
Deferred Revenue	2,400	-
Consumer Deposits	61,924	63,329
Total Current Liabilities	1,127,395	1,021,142
Noncurrent Liabilities		
Unearned Revenue	44,400	-
Note Payable	3,000,000	3,000,000
Total Noncurrent Liabilities	3,044,400	3,000,000
Total Liabilities	4,171,795	4,021,142
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,250,702	2,889,315
Unrestricted	7,123,974	5,916,249
Total Net Assets	\$ 9,374,676	\$ 8,805,564

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues:		
Cable System Revenue	\$ 1,426,881	\$ 1,281,679
Telephone System Revenue	3,930,105	3,351,848
Data Services Revenue	1,256,262	1,143,210
Miscellaneous Income	12,049	10,021
Total Operating Revenues	6,625,297	5,786,758
Operating Expenses:		
Plant Specific and Programming	3,851,798	3,384,735
Depreciation and Amortization	1,131,215	963,370
Customer Services and Marketing	475,981	561,386
General and Administrative	458,551	462,148
Total Operating Expenses	5,917,545	5,371,639
Operating Income	707,752	415,119
Non-Operating Income (Expense):		
Leased Facilities	177,817	171,447
Net Income from Joint Ventures	46,766	53,995
Economic Development Payment	(1,647)	(848,433)
Interest Income	29,412	107,092
Interest Expense	(137,191)	(136,478)
Inventory Sales	3,254	-
Gain on Plant Retirements	650	-
Payment in Lieu of Property Taxes	(257,701)	(211,306)
Total Non-Operating Income (Expense)	(138,640)	(863,683)
Changes in Net Assets	569,112	(448,564)
Net Assets at Beginning of Year	8,805,564	9,254,128
Net Assets at End of Year	\$ 9,374,676	\$ 8,805,564

See Accompanying Notes to Financial Statements

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**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 4,983,857	\$ 6,113,474
Cash Payments to Suppliers for Goods and Services	(4,248,137)	(3,658,159)
Cash Payments to Employees for Services	(477,565)	(449,751)
Cash Payments for Economic Development and In Lieu of Property Taxes	(259,348)	(1,059,739)
Payments Received From Leasing of Facilities	177,817	171,447
	<hr/>	<hr/>
Net Cash Provided By Operating Activities	176,624	1,117,272
	<hr/>	<hr/>
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(488,354)	(1,277,341)
Proceeds from Sale of Capital Assets	1,200	-
Payments Received From Sale of Inventory	3,254	-
Interest Paid	(137,191)	(136,478)
	<hr/>	<hr/>
Net Cash (Used) By Capital and Related Financing Activities	(621,091)	(1,413,819)
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Other Investments	6,784	32,666
Interest Received From Investments	29,412	107,092
	<hr/>	<hr/>
Net Cash Provided By Investing Activities	36,196	139,758
	<hr/>	<hr/>
Net (Decrease) in Cash	(408,271)	(156,789)
	<hr/>	<hr/>
Cash and Cash Equivalents at Beginning of Year	4,035,365	4,192,154
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	<u>\$ 3,627,094</u>	<u>\$ 4,035,365</u>

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating Income	\$ 707,752	\$ 415,119
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation and Amortization	1,131,215	963,370
Leased Facilities Income	177,817	171,447
Contributions Paid for Economic Development	(1,647)	(848,433)
Payment in Lieu of Property Taxes	(257,701)	(211,306)
(Increase) Decrease in Operating Assets:		
Consumer Deposits	1,405	(21,126)
Accounts Receivable	(1,921,750)	(741,410)
Unbilled Usage	232,105	1,089,252
Materials and Supplies Inventory	(18,203)	(18,657)
Prepayments	(25,022)	15,467
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	124,272	287,249
Accrued Payroll and Compensated Absences	(19,014)	(4,823)
Consumer Deposits	(1,405)	21,123
Deferred Revenue	46,800	-
Total Adjustments	<u>(531,128)</u>	<u>702,153</u>
Net Cash Provided By Operating Activities	<u><u>\$ 176,624</u></u>	<u><u>\$ 1,117,272</u></u>

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Communications Utility of the City of Spencer, Iowa (Communications Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Water Utility of the City of Spencer, Iowa, by a five member Board of Trustees. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television, telephone, high-speed data communications and other communication products. The Utility's rates are set by its governing board.

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise fund, the Utility applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new communications facilities. In addition, net interest costs on construction debt are capitalized. Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line basis. Current depreciation expense is approximately 10.15% of the original cost of depreciable communication plant in service.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	10-15 years
Buildings and improvements	20 years
Equipment	5-7 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowed based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Unamortized Deferred Costs

Cable television system costs allocated during construction of the system are being amortized using the straight-line method over the expected life of the cable television plant.

F. Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Income Taxes

The Communications Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

H. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2009, totaled \$350,746.

Note 2 - CASH AND CASH EQUIVALENTS

The Utility's deposits in banks at December 31, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility's investments which consisted of Certificate of Deposits are protected per Chapter 12C of the Iowa Code, and credit risk and concentration risks do not apply.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	9,813,558	358,459	(3,142)	10,168,875
Buildings and improvements	882,848	85,577	(24,825)	943,600
Equipment	975,854	69,144	-	1,044,998
Total capital assets being depreciated	11,672,260	513,180	(27,967)	12,157,473
Less accumulated depreciation	5,793,287	1,126,418	(2,592)	6,917,113
Total capital assets being depreciated - net	5,878,973	(613,238)	(25,375)	5,240,360
Capital assets – net	\$ 5,889,315	(613,238)	(25,375)	\$5,250,702

Capital assets activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	8,811,751	1,001,807	-	9,813,558
Buildings and improvements	697,332	185,516	-	882,848
Equipment	885,836	90,018	-	975,854
Total capital assets being depreciated	10,394,919	1,277,341	-	11,672,260
Less accumulated depreciation	4,834,713	958,574	-	5,793,287
Total capital assets being depreciated - net	5,560,206	318,767	-	5,878,974
Capital assets – net	\$ 5,570,548	\$ 318,767	\$ -	\$ 5,889,315

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 4 - TRANSFERS IN LIEU OF PROPERTY TAX

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Funds totaling \$257,701 and \$211,306 were transferred to the City during 2009 and 2008, respectively.

Note 5 - LONG-TERM RECEIVABLES

During December 2003, the Utility entered into an agreement with Northern Iowa Communications Partners, LLC (NICP), an Iowa limited liability company, pursuant to the provisions of Chapter 28E of the Code of Iowa. Under this agreement, the Utility, along with other members of NICP, agrees to pay for the use of a shared switch for routing certain telecommunications traffic at rates adopted by NICP. The Utility will share in profits generated or shortfalls incurred through the 28E agreement due to the method used to determine an annual usage fee paid by NICP to the Utility. An NICP member will be responsible for maintaining the financial records related to the 28E agreement. The amount earned but not received by the Utility of \$248,525 is recorded as a receivable.

During May 2006, the Utility entered into an agreement with Evertek, Inc., an Iowa Corporation, to create Clay County Communications, LLC as a separate legal entity. Clay County Communications shall function as if it were a limited liability company organized under Iowa Code Chapter 490A. The purpose of this agreement and Clay County Communications is to provide wired and/or wireless communications services in Clay County, Iowa. The Utility and Evertek, Inc. each initially contributed \$400,000. During 2007 the Utility and Evertek, Inc. each made an additional contribution \$150,000. The Utility accounts for the joint venture on the equity method, and has recorded the balance of \$513,153 as a receivable.

Note 6 - NOTE PAYABLE and LONG TERM DEFERRED REVENUE

Note payable activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Note Payable - Municipal Electric Utility	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000	\$ -

The Board of Trustees of the Municipal Electric Utility adopted a resolution on June 14, 1999, pursuant to Section 384.89 City Code of Iowa and Rule 2.5(5) of the rules promulgated by the City Finance Committee, allowing for the advance of funds not to exceed \$8,000,000 to the Municipal Communications Utility to be utilized for the construction and development of the communication system. These funds are to be repaid upon demand and bear a 4.5% per annum interest rate.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 7 - LEASES

Spencer Municipal Utilities entered into a 20 year fiber lease agreement with the Iowa Rural Health Telecommunications Program on July 1, 2009. The contract amount for the lease is \$48,000 and is due in full upon construction completion. Construction was completed and \$48,000 was collected in 2009. Spencer Municipal Utilities recognized \$1,200 in revenue during 2009, classified \$2,400 as short term deferred revenue and the remaining \$44,400 as long term deferred revenue. Spencer Municipal Utilities is responsible for maintenance of the fiber.

The Utility leases building space from the Water Utility. The expense from the lease is classified as operating expense. The lease is a monthly lease based on building space utilized and totaled \$2,368 and \$1,974 in 2009 and 2008, respectively. The payable at December 31, 2009 and 2008 was \$2,368 and \$1,974, respectively.

The Utility leases bandwidth, property, and building space from the Electric Utility. The expense from the lease is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$410,668 and \$401,458 in 2009 and 2008, respectively. The payable at December 31, 2009 and 2008 was \$410,668 and \$401,458, respectively.

Note 8 - RETIREMENT SYSTEM

IPERS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 4.10% through June 30, 2009 and 4.30% presently of their annual salary and the Utility was required to contribute 6.35% through June 30, 2008 and 6.65% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$54,942, \$48,928 and \$37,126, respectively, equal to the required contributions for the year.

Employees Pension Plan

All full-time employees of the Communications Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Communications Utility's contribution to the Money Accumulation Pension Plan for 2009 and 2008 totaled \$64,898 and \$55,758, respectively.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 9 - OTHER POST EMPLOYMENT BENEFITS

During fiscal 2008, the Utility adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded at June 30, 2009 for a Post-Employment Benefit Obligation as determined by an actuarial calculation.

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in a implicit subsidy and an OPEB liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	2009	2008
Annual required contribution	\$ 6,377	\$ 5,946
Interest on net OPEB obligation	238	-
Adjustment to annual required contribution	(344)	-
Annual OPEB cost (Expense)	6,271	5,946
Contributions made	(178)	-
Increase in net OPEB obligation	6,093	5,946
Net OPEB obligation - beginning of year	5,946	-
Net OPEB obligation - end of year	\$ 12,039	\$ 5,946

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 6,271	2.8%	\$ 12,039
2008	\$ 5,946	0.0%	\$ 5,946

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2009 was as follows:

	<u>2009</u>	<u>2008</u>
Actuarial accrued liability (AAL)	\$28,668	\$22,881
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$28,668	\$22,881
 Covered payroll (active members)	 \$986,933	 \$958,187
UAAL as a percentage of covered payroll	2.9%	2.4%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 4.5%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 10 - RISK MANAGEMENT

The Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Two members of the Board of Trustees hold non-controlling interests in a financial institution where the Utility maintains cash balances.

Additional related party items are included in Notes 5, 6, and 7.

Note 12 – CONTINGENCIES

In the last four years, the Utility has provided Iowa based telephone numbers to callers who are then connected to a conference call. The Utility maintains these are terminated in Iowa and charges long-distance carriers a fee for terminating access services. The Utility then pays a portion of the revenue to other communication providers who supply a portion of the services. Until 2007 the long-distance carriers have paid these charges to the Utility and the Utility has paid the other communication providers. In 2007, Sprint, has filed a lawsuit alleging that the calls are not terminated in Iowa, and that the Utility is not entitled to the terminating access charges that are billed to them. The Utility has filed counter-claims or claims against Sprint, MCI and Qwest so that the statute of limitations does not run for filing counter claims. The Utility has also suspended its payments to the other providers pending the outcome of the litigation. Since 2008, the Utility has set up allowance accounts that reduce income and receivables to reflect management's estimate that it is reasonable to believe 15% of the gross revenues generated by terminating these long distance calls will be collected.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Note 13 - COMMITMENTS

The Utility has committed to provide annual support of \$21,000 to the Clay Regional Events center during 2009. The support is contingent on the Events Center receiving additional support from other area sources and is subject to annual review by the Utility Board.

Beginning in 2009, the Communications Utility pledged support to the Iowa Great Lakes Corridor of Opportunity at a level of \$25,000 per year for four years. This commitment is subject to annual review by the Utility Board.

Note 14 - SUBSEQUENT EVENT

On January 12, 2010 Utility has filed a claim against AT&T for unpaid communications access.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2009**

	Budgeted	Actual	Final to Actual Variance
Receipts:			
Municipal Electric Utility		\$ 11,594,692	
Municipal Water Utility		1,344,154	
Municipal Communications Utility		5,202,324	
Total Receipts	<u>\$ 23,205,951</u>	<u>18,141,170</u>	<u>\$ (5,064,781)</u>
Expenditures:			
Municipal Electric Utility		15,288,994	
Municipal Water Utility		1,728,604	
Municipal Communications Utility		5,610,595	
Total Expenditures	<u>24,756,278</u>	<u>22,628,193</u>	<u>2,128,085</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,550,327)</u>	<u>(4,487,023)</u>	<u>(2,936,696)</u>
Other Financing Sources (Uses); Transfers Out	<u>(2,600,000)</u>	<u>-</u>	<u>2,600,000</u>
Net Change in Net Assets	<u>(4,150,327)</u>	<u>(4,487,023)</u>	<u>(336,696)</u>
Net Assets at Beginning of Year	<u>22,194,185</u>	<u>22,194,185</u>	<u>-</u>
Net Assets at End of Year	<u><u>\$ 18,043,858</u></u>	<u><u>\$ 17,707,162</u></u>	<u><u>\$ (336,696)</u></u>

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2009**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 11,594,692	\$ 487,137	\$ 12,081,829
Municipal Water Utility	1,344,154	(18,238)	1,325,916
Municipal Communications Utility	5,202,324	1,680,872	6,883,196
Total Receipts	<u>18,141,170</u>	<u>2,149,771</u>	<u>20,290,941</u>
Expenditures:			
Municipal Electric Utility	15,288,994	(2,148,723)	13,140,271
Municipal Water Utility	1,728,604	(18,717)	1,709,887
Municipal Communications Utility	5,610,595	703,489	6,314,084
Total Expenditures	<u>22,628,193</u>	<u>(1,463,951)</u>	<u>21,164,242</u>
Net Change in Net Assets	(4,487,023)	3,613,722	(873,301)
Net Assets at Beginning of Year	<u>22,194,185</u>	<u>42,358,639</u>	<u>64,552,824</u>
Net Assets at End of Year	<u>\$ 17,707,162</u>	<u>\$ 45,972,361</u>	<u>\$ 63,679,523</u>

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each individual utility.

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities function and are required to be budgeted. All Utility disbursements are included in business type activities. During the year, one budget amendment decreased budgeted disbursements by \$11,441,222. This budget amendment is reflected in the final budgeted amounts.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, Iowa 51301

We have audited the basic financial statements of Municipal Communications Utility of the City of Spencer, Iowa (Spencer Municipal Utility) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 6, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Spencer Municipal Utility as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Spencer Municipal Utility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spencer Municipal Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer Municipal Utility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Spencer Municipal Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Spencer Municipal Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer Municipal Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Spencer Municipal Utility's responses, we did not audit Spencer Municipal Utility's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spencer and other parties to whom Spencer Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
May 6, 2010

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCY:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Part III: Other Findings Related to Required Statutory Reporting

III-A-09 Certified Budget – Disbursements during the year ended December 31, 2009 did not exceed the amounts budgeted in the business type activities function.

III-B-09 Questionable Expenditures – We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-09 Travel Expenses – No expenditures of Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-D-09 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Howe, Board Member		
Part owner of H & N Chevrolet	Maintenance & Repairs	115

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board Member do not appear to represent conflicts of interest since total transactions with each were less than \$1,500 during the year.

III-E-09 Bond Coverage – Surety bond coverage of Spencer Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-09 Revenue Bonds – No revenue bonds/notes were issued to the Utility.

III-H-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility's investment policy were noted.

III-I-09 Telecommunication Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.